United States
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Foreign Agricultural Service

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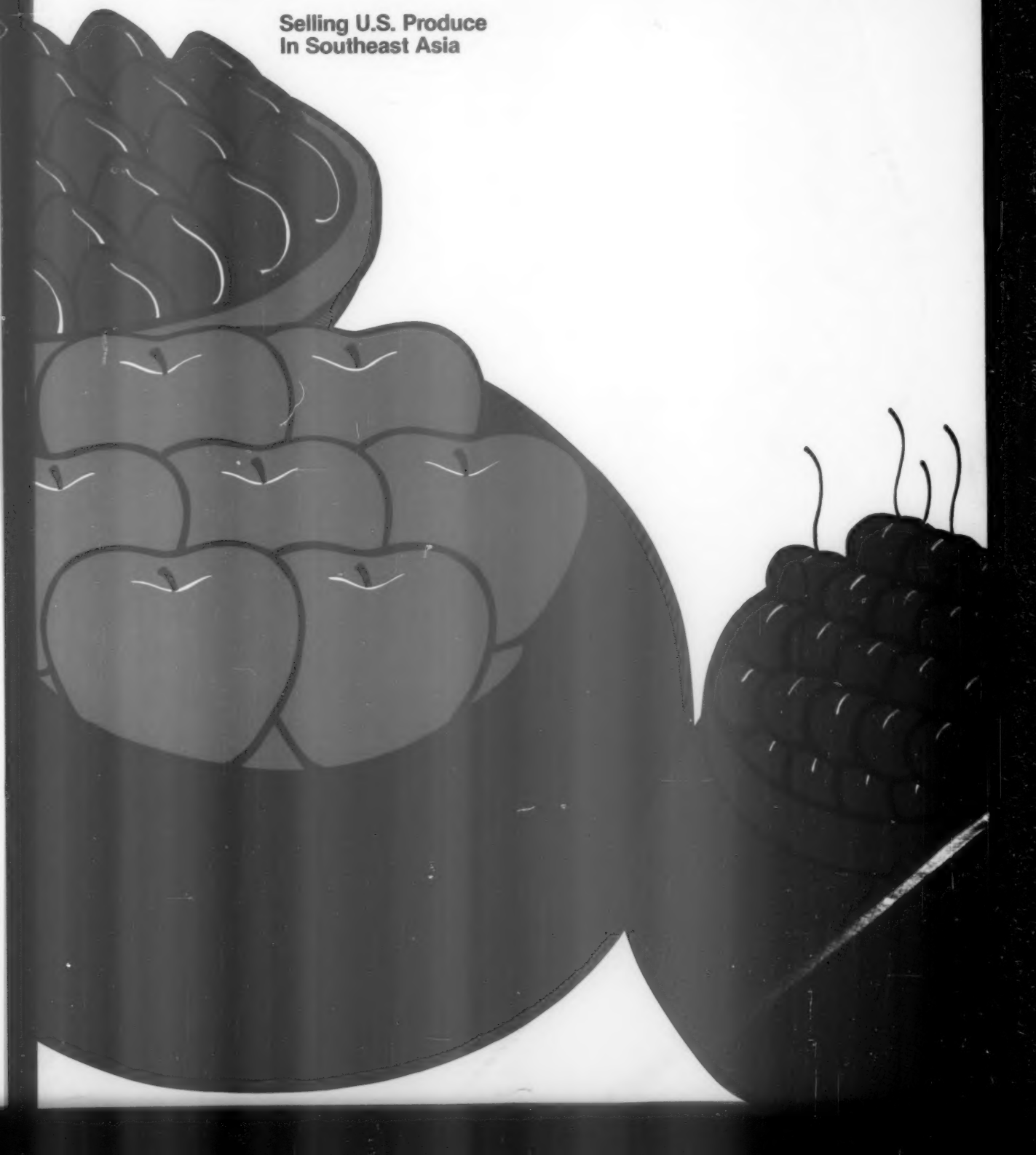
July 1983

Selling U.S. Produce In Southeast Asia



Marketing News

Wheat Associates Sponsors Baking Seminar in Mexico

More than 40 bakers participated in the first baking seminar sponsored by **U.S. Wheat Associates (USW)** at the new Guadalajara baking school—Mexico's only bakers' training center. USW baking consultant Thomas Lehmann, who conducted the one-week seminar, focused on both the theoretical and practical aspects of baking. "Because all of the participants were bakers," said Lehmann, "my objective was to demonstrate clearly the 'whys' of baking, including the function of ingredients and other similar aspects of baking."

U.S. Wheat Associates, through the cooperation of the Kansas, Nebraska and Oklahoma Wheat Commissions, contributed $600,000 to purchase equipment for the school, which opened in October 1982. USW plans to work closely with the Guadalajara baking school in the development of a bakers' training program.

Wheat flour consumption in Mexico has increased at a steady pace during the past few years. Many new bakeries have sprouted throughout the country, creating the need for qualified bakers.

The new school will be used for the first Baking Exposition and Bread Fair in the state of Jalisco. The fair is tentatively planned for September or October this year.

Feed Grains Council's New Nigerian Office Serves Growing Market

The **U.S. Feed Grains Council (USFGC)** is taking advantage of opportunities for coarse grain sales to Nigeria, a growing market in West Africa. USFGC recently opened a regional office, headquartered in Lagos and headed by Ron Gillespie, to develop the Nigerian market. Nigeria, the largest and one of the wealthiest nations in Africa, is bringing a domestic poultry industry on line, which is generating increased demand for feed grains.

Gillespie sees tremendous potential for growth in feed grain sales to Nigeria. "Coarse grain exports have increased from 75,000 tons to 460,000 in the past five years," says Gillespie. "And they are projected to increase as much as another million tons in the next five." Gillespie believes that the United States can gain an even more substantial market share. "The U.S. share is already about 75 percent, but USFGC is shooting for an increase to 85 percent—and I think we can do it."

Gillespie pointed out that developing the Nigerian market will not be easy. A drop in oil revenues has triggered an austerity program, cutting imports. Even if financing is available to import feed grains and other commodities, the infrastructure and feed milling system in Nigeria needs development. Some mills have limited processing capacity, while others suffer from repair and maintenance problems. But, adds Gillespie, "these are things that hopefully the Council can do something about—not only in the poultry sector, but maybe in other livestock areas such as beef and dairy."

The rewards to be realized from such assistance are tremendous. U.S. feed grain exports to Nigeria could increase from their current level of 350,000 tons to 1.2 million in the next five years, according to Gillespie.

Meat Export Federation Names New Marketing Director

The **U.S. Meat Export Federation (MEF)** has named Harold Smedley as executive director of marketing. He will coordinate MEF's foreign market development programs, including those currently underway in the Far East, Europe, Middle East, Latin America and the Caribbean. Smedley also will oversee implementation of MEF's five-year strategic plan, which establishes 1986 industry export goals and a marketing strategy to meet them.

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Southeast Asia: Sales Opportunities For U.S. Fruits and Vegetables

By Richard Schroeter

The advent of high-speed container ships in the Pacific in the early 1970s and a surfeit of U.S. fresh fruit and vegetable production has made western state producers of these commodities increasingly turn their gaze toward the Far East as a market for U.S. produce.

The members of the Western Growers Association (WGA)—an FAS cooperator representing more than 2,000 growers, packers and shippers of fresh produce in Arizona and California—have already explored the possibilities of the Japanese market and Hong Kong.

More recently the WGA has analyzed other Asian markets for U.S. produce, surveying fresh fruit and vegetable markets in five Southeast Asian countries: Singapore, Malaysia, Taiwan, Indonesia and the Philippines.

After visiting these countries, the team concluded that these markets, with the possible exception of the Philippines, offer good potential for U.S. exporters of fresh fruits and vegetables. Apples, oranges and grapes already meet with good response in most of the markets, although more aggressive marketing techniques could lead to expanded sales.

Acquainting Customers With U.S. Produce

Unfamiliarity with U.S. varieties of fresh produce is a pervasive constraint in Southeast Asian markets. Overcoming this problem through educational programs, such as extensive taste samplings, is one solution.

Importers also need to be taught about quality control, ordering shipments from the United States and mixing loads of several products to maximize stock efficiencies. At the same time, they also must be educated on mixing only compatible products.

Distribution systems are quite different from those in the United States. Fresh produce passes through many hands between producer and consumer,

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according to the team. There is little home refrigeration and consumers tend to buy for each meal, literally shopping three times a day. They buy in small quantities from neighborhood stores, hawkers or street markets.

The team found Taiwan had the most efficient marketing system, with produce passing through the fewest hands. Indonesia and the Philippines were less quality conscious, yet excellent produce was available.

Malaysia has probably the most complicated distribution system, but despite the amount of handling, produce maintains good quality.

Although there is considerable cold storage capacity in all of these countries, it rarely meets the U.S. standard. Nevertheless, availability of cold storage is not a deterrent to marketing U.S. produce in any of these countries.

Considering Consumer Preferences

U.S. exporters interested in selling to these Southeast Asian countries should take into consideration consumer preferences, or at least, devise ways to work around them, primarily through educational and promotional programs. For example:

• In Taiwan, consumers prefer green lemons, believing that yellow ones are overripe. They also prefer red grapes and red plums, yet green varieties of both these items are as sweet, or sweeter, than the red. Avocados are considered to have a distasteful aroma.

• Singapore and Malaysia also have preferences for red grapes and red plums. Consumers here often convert their citrus to juice, and consequently, find eating a grapefruit baffling.

• In the United States, consumers equate large sizes with desirability. However, in these less affluent nations, smaller sizes are preferred because of lower costs.

Australian Competition

In Indonesia, Singapore and Malaysia, the United States faces competition from Australia, particularly for

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cauliflower, carrots and broccoli. Any U.S. market development efforts in this area will be head-to-head with an aggressive Australian program. The quality of Australian produce drew universal praise from the WGA team.

The Australians have not only an advantage in distance from the market, but also obtain very low air freight rates to Singapore, a top distribution point. However, any U.S. supplier with a genuine desire to break into this market can meet or surpass Australian quality. Efficient U.S. production methods will allow the United States to meet, or at least be competitive with, Australian prices.

Tips for Exporters

The WGA team had a few tips for U.S shippers interested in this market:

- Only excellent quality produce will qualify for these markets.
- Buyers must be able to depend on a regular supply. U.S. shippers are cautioned against using these markets solely to dispose of excess supplies.
- U.S. shippers must make sure payments will be made, and on time.

As a result of the survey, Western Growers, in cooperation with the Foreign Agricultural Service, will hold a three-day trade exhibit in Singapore and a one-day show in Kuala Lumpur in September 1983.

Following is an analysis of the potential of each of the countries in descending order of importance as a market for U.S. fresh fruits and vegetables.

Singapore. This city-state has many advantages that make it an excellent market: its strategic location as a distribution center for other markets in the area, a large number of tourists and the highest per capita income in Southeast Asia. This is a brand conscious, high-quality market. Singapore offers excellent opportunities for expanded utilization of a wide variety of U.S. fresh fruits and vegetables.

It has the potential to become a better market for U.S. products than Hong Kong because it is an open market without trade restrictions, and also provides access to neighboring areas.

U.S. oranges and grapes have already found good acceptance here. Carrots, broccoli and cauliflower are imported from the United States, but Australia currently dominates the market for these items. Plums have a better than average potential, while grapefruit and avocados need marketing help because consumers are unfamiliar with them at this point.

Malaysia. This market is a "sleeper," ready to expand as a U.S. market in the near future. Locally grown produce is of excellent quality, but insufficient to meet demand. There are few, if any, marketing barriers and import duties are reasonable. The government allows a 10-percent import duty reduction for

shippers who destine their cargoes directly to Malaysia. However, this may add five days to delivery.

Citrus, grapes, melons, plums and celery head the list of high potential products. Nectarines are a possibility for expanded sales, but they need a strong promotional push.

Taiwan. With a favorable balance of trade, Taiwan should be an ideal market for U.S exports. However, tariffs are high during the marketing season for local produce. While tariffs drop during the off season, there is some reluctance on the part of Taiwan's receivers to commit themselves to any new ventures.

Despite this, the team felt Taiwan held opportunity, but expansion of the fruit and vegetable market will be slow. Small-sized melons have a good chance for success. Table grapes and dark red plums are popular now. Sales opportunities for cauliflower, lettuce, mixed vegetables and green asparagus may exist during the typhoon season.

Indonesia. Near-term prospects for U.S. fruit and vegetable exports are limited in Indonesia. Low incomes, debt service obligations, import barriers and transportation problems combine to dampen opportunities here.

The most distant market, Indonesia posed some genuine problems. Time and temperature are the major obstacles for fresh produce shippers. While refrigerated containers will ease the problem somewhat, ship schedules make it very difficult to market the more perishable commodities. But the size of Indonesia's population indicates that sooner or later it will be a market for U.S. fresh produce.

Philippines. A number of factors, including strict foreign exchange controls, also work against market development in the Philippines. The Central Bank, which oversees foreign exchange and thus controls imports, considers fresh fruits and vegetables to be "non-essentials." So at present, there is little opportunity for U.S. sales. Should this situation improve, however, there could be a chance for U.S. shippers.

Neither Indonesia nor the Philippines should be ignored, however, since long-term sales prospects may be significant. ■

The author is Deputy Director for Marketing, Horticultural and Tropical Products Division, FAS. Tel. (202) 447-7931.

Apple Sales Boost U.S. Exports to Taiwan

Charles D. Brandi

By Richard Schroeter

Taiwan has blossomed as a market for U.S. horticultural products ever since it liberalized its import system for apples in 1979.

There have been some setbacks on occasion, but overall the market looks promising this year for many fruit and vegetable products.

Taiwan's import changes led to a surge in U.S. apple exports to that country, boosting U.S. horticultural exports over $65 million in fiscal 1980 and 1981. Export sales last year totaled $42 million and they are projected to exceed $60 million in 1983.

Taiwan had been only a small market for U.S. apples before 1979, generally taking less than 3,000 metric tons a year. A government monopoly controlled trade and severely restricted imports to protect domestic production. With the lifting of these restrictions, pent-up trade and consumer demand exploded.

U.S. exports shot up to 64,000 tons in 1980 and to 75,000 tons in 1981. This made Taiwan the largest export outlet for U.S. apples in 1981, surpassing Canada, the traditional leading export market. Apples accounted for almost two-thirds of total U.S. horticultural exports to Taiwan.

The speculative fever over U.S. apples subsided in 1982. This development, combined with reduced U.S. supplies and higher prices, were major factors in halving U.S. apple exports to 35,000 tons.

Quality may also have played an important role. In 1981 exporters began shifting to dry van cargo, unrefrigerated containers, because of substantial freight rate advantages over refrigerated shipments. Some dry van shipments were disappointing, tarnishing the high-quality reputation of U.S. apples.

These transportation problems appear to have been overcome and now virtually all shipments to Taiwan are in dry vans.

In the first six months of 1983, the volume of U.S. apple exports was up 62 percent from the same period a year ago.

Taiwan Fruit Imports Growing in 1983

Sales of table grapes, the second leading U.S. horticultural export to Taiwan, more than doubled in 1982,

Charles D. Brandi

reaching $2.9 million. The California Table Grape Commission is working to sustain this growth through a wide-ranging promotional campaign.

The picture was not so bright last year for canned peaches, another important export to Taiwan. Peach exports dropped sharply in 1982, but are now on the upswing with sales in the first six months of 1983 more than five times those of the same period a year earlier.

Much of the credit for this turnaround goes to the Cling Peach Advisory Board which launched promotions at the Far Eastern Department stores, and the bakeries and restaurants of Art Coffee China and the Hilton Hotel.

Other U.S. products showing promise in Taiwan include tree nuts, prunes, oranges, raisins and dark red plums. The Western Growers Association, in its annual survey of opportunities for fresh produce exports to Taiwan concluded that small melons and some vegetables also may have export possibilities.

High Import Duties Limit Market Expansion

High import duties are a major constraint to expanding the Taiwanese market for U.S. products. Apples, for example, are assessed a duty of 75 percent. This tariff is applied to the c.i.f. price, increased by a customs uplift of 15 percent. This uplift also applies to other products.

Fresh lemons, oranges and grapefruit are subject to a 25 percent tariff from March 1 to Sept. 30, but 50 percent during other months. Other fresh fruits commonly have duties of 50 percent or more. ■

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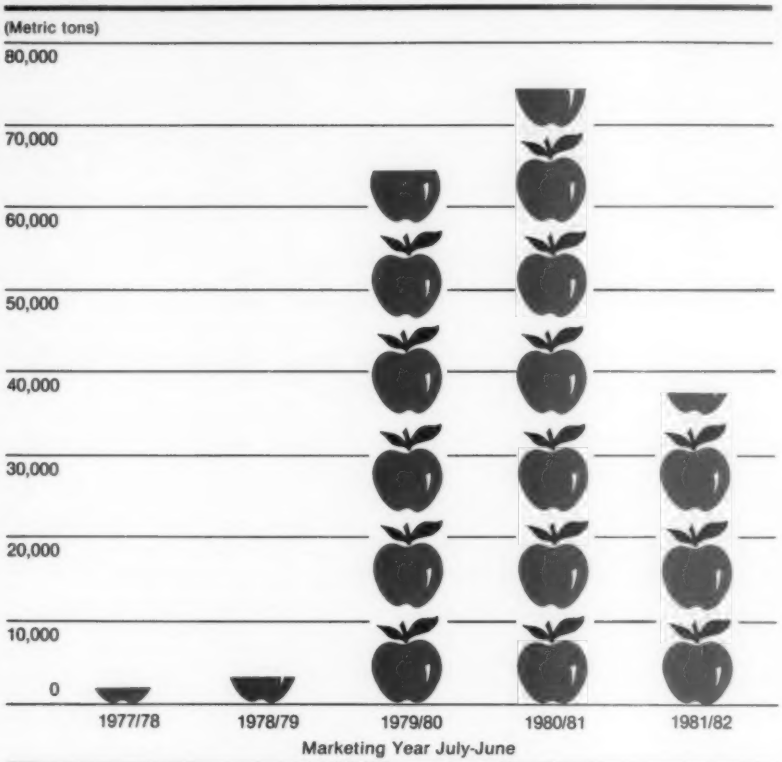
U.S. Apple Exports to Taiwan Jump After 1979 Trade Liberalization



U.S. Horticultural Exports to Taiwan Increasing This Year

Metric tons

Commodity	FY 1981	FY 1982	Oct.-March 1982	Oct.-March 1983
Fresh Fruit	78,028	40,090	30,256	47,809
Apples	75,186	35.493	28,124	45,521
Grapes	973	2,581	1,900	2,125
Plums	664	219	—	—
Oranges	914	1,356	106	146
Canned Fruit	1,732	1,118	402	739
Cherries, maraschino	446	361	243	93
Cocktail	209	210	37	87
Peaches	924	377	83	456
Dried Fruit	2,333	3,186	1,833	2,379
Raisins	1,795	2,641	1,600	1,986
Fresh Vegetables	1,234	1,086	342	585
Canned Vegetables	1,925	2,735	1,767	1,217
Corn	1,721	2,509	1,642	1,091
Tree Nuts	716	1,235	652	1,072
Total	**85,988**	**49,450**	**35,252**	**53,801**

Trade Updates

Canada Lowers Residue Tolerances for an Important Fungicide

The Canadian government has unofficially announced a reduction in the residues of the fungicide Captan allowed on fresh fruit and vegetable imports to 5 parts per million (ppm), down from as high as 40 ppm in some cases. Captan is used extensively in the United States to protect such fruits as apples and pears, apricots and peaches, grapes and strawberries from mold and mildew before shipment.—*Tom O'Connell, FAS. Tel: (202) 382-1333.*

EC and China Discuss Additional Wheat Sales

The European Community (EC) and China are again discussing additional EC wheat sales under the loosely worded and non-binding three-year agreement that expires July 31, 1983. China already has purchased about 1.4 million tons of EC wheat this year compared with only 80,000 last season and 409,000 tons in 1980/81. EC wheat subsidies had fallen to about $63 per ton by early April, but the EC must grant a $6 per ton corrective subsidy on wheat for China to cover additional transportation costs.— *Alan Riffkin, FAS. Tel: (202) 475-4200.*

Japan Considering Relaxing Rules Against Semen Imports

U.S. and Japanese experts met in Tokyo recently to discuss bovine semen imports into Japan. Although the meeting was not conclusive, it appeared that Japan was on the road to opening, with some qualifications, the market for high quality semen from abroad. In this conjunction, the Japanese Ministry of Agriculture recently submitted to the Diet an amendment bill to do away with statutory barriers to semen trade and also to authorize the application of embryo transfer technology. Such an amendment would help Japanese producers to upgrade their breeding herds.—William L. Davis, Jr., Agricultural Counselor, Tokyo.

Revisions Proposed in Canadian Labeling Rules

Canada's Department of Health and Welfare has proposed some revisions to its nutritional labeling requirements to make compliance easier for manufacturers (H and W Information Letter No. 641). Currently the regulations are so restrictive that 80 percent of nutritional claims, domestic and foreign, are rejected. U.S. firms interested in obtaining copies of the proposals, or submitting comments, should write to: Chief, Regulatory Affairs Division, Food Directorate, Health Protection Branch, Department of Health and Welfare, Ottawa, Ontario, Canada, KIA 0L2. Comments will be accepted until January 1, 1984.

In addition to the nutritional labeling rules, U.S. exporters of processed products to Canada also must label all products in English and French (stick-on labels are becoming less acceptable) and label all consumer goods with metric weights and measures. U.S. packaging with equivalent metric units may not always be allowed.— *Edmond Missiaen, FAS. Tel: (202) 382-8895.*

Spain Seeks To Move Surplus Farm Stocks Into World Market

Spain's new Socialist Government is actively exploring means of alleviating its surplus stocks of commodities through sales or barter deals in the world marketplace.

Press reports indicate officials of a newly established government trade department have been traveling abroad to find outlets for large and mounting government-owned stocks of olive oil, alcohol and beef. Discussions have been held with a Western Hemisphere country for the export of substantial quantities of wine alcohol. Similar discussions are said to have been held in several Asian and African countries regarding beef. One of the arrangements reportedly proposed has a beef-cattle barter. Efforts have also been made to develop an olive oil for coal arrangement. — *Fred W. Traeger, Agricultural Attache, Madrid.*

USSR Turns to Various Suppliers To Cover Domestic Shortages

Black Star

This month's *Foreign Agriculture* features a special report on the USSR. With the interest increasing in the Soviet Union's agriculture and growing import needs, this series of articles examines the scope of Soviet agricultural trade, the country's agriculture and recurrent problems that Soviet farmers face.

By David M. Schoonover

The Soviet Union, a net agricultural importer since 1962, has seen the pace of its imports take off dramatically since the early 1970s. The value of imports doubled from 1978 to 1981, exceeding $21 billion in the latter year. Imports remained high in 1982 as well.

The USSR has become the world's second largest importer of agricultural products after the European Community (regional basis) or West Germany (single-country basis). The level of Soviet imports in 1981 was well above that of the United States or Japan.

Increasingly in recent years, the Soviets have relied on suppliers other than the United States for the substantial growth in their grain imports.

The dramatic rise in Soviet agricultural imports has its roots in the consumer-oriented programs of the early 1970s. Imports of grain first were made to offset crop shortfalls and to avoid reducing livestock herds, as had occurred in 1963.

Growth in Meat, Butter Imports

A slowdown in Soviet meat and milk production was accompanied by strong growth in imports of meat and butter. Soviet meat imports reached nearly a million tons in 1981 and dipped only slightly in 1982. Sugar imports have grown strongly to an estimated record 7 million metric tons in 1982. Imports accounted for roughly

half of consumption in that year. Rice and wheat flour imports have jumped dramatically in the past few years.

Deficits Spur Imports

Initially, year-to-year changes in the level of imports were quite erratic. The USSR soon was importing to cover a continuing deficit in feed supplies. Despite grain imports averaging 35-40 million tons during the past four years, however, the Soviet Union has been unable to offset the entire grain crop shortfall. Hence, livestock production has stagnated. Record imports of 46 million tons during 1981/82 were a fifth of world grain trade—and more than a fifth of total Soviet grain use.

As of 1981, the USSR was the world's leading importer of grains (both wheat and feed grains), meat, butter, sugar, wool and jute. The USSR was the second-ranked importer of rice, wheat flour (net trade), raisins and wine, and was a substantial importer of oilseeds and products, fruit and a number of other commodities. Among principal agricultural items, the USSR was a major exporter only of cotton, in which it ranked second in the world.

To handle the increased import needs of recent years, the Soviets have expanded facilities at ports.

The Soviet Union imports substantial amounts of both wheat and feed grains, primarily corn. The ultimate need is feed for livestock—now by far the largest component of Soviet grain use as wheat production has covered food needs in even the worst crop year.

Much of Soviet wheat production in northern and eastern regions, however, is high-moisture grain unsuitable for milling. As a result, the Soviets import wheat for milling and use their own wheat for feed. In some years, wheat is the leading Soviet "feed grain."

Moreover, wheat tends to be the most readily available grain from major

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exporters other than the United States. In addition, wheat is practical to import because of versatility in its use.

Rise of Soviet Oilseed Imports

Soviet oilseed imports became important only in the mid-1970s, when substantial quantities of soybeans were purchased. Soviet imports of soybeans have continued, but have shown no marked uptrend.

However, Soviet imports of oilseed products—both oilseed meal and vegetable oil—began a sharp upturn in 1980 from previously minor levels. The surge in imports has originated from non-U.S. suppliers.

U.S.-Soviet Grain Trade

Soviet agricultural grain purchases in the early 1970s were the beginning of sizable amounts of U.S. agricultural exports to the USSR. The size of Soviet purchases in 1972 took most people by surprise. U.S.-Soviet grain trade developed rather shakily in the first few years, with Soviet purchases varying greatly between years and with the United States applying discretionary control in both 1974 and 1975.

Since the mid-1970s, U.S. grain trade with the Soviet Union has been conducted within the framework of a long-term U.S.-USSR grain agreement. The agreement, signed Oct. 20, 1975, originally covered trade in wheat and corn from Oct. 1, 1975-Sept. 30, 1981. It has been extended twice and currently runs through Sept. 30, 1983.

The agreement annually requires the USSR to purchase at least 6 million tons of U.S. wheat and corn in approximately equal quantities, and requires the United States through private, commercial sources to supply at least 8 million tons except under specified extreme short-supply conditions. It requires the United States not to exercise any discretionary controls on exports of these amounts.

The agreement provides for consultations both periodically and upon notification by either party. Additional purchases may be made after consultations.

From the U.S. point of view, the agreement serves three main objectives:
- Assures an expanding market for U.S. grain;
- Provides better information about Soviet grain purchase intentions; and
- Provides a mechanism that could facilitate restraints on large purchases of U.S. grain.

U.S.-Soviet Trade Tops $3 Billion, Then Plunges

U.S. agricultural exports to the USSR grew dramatically, reaching a high of $3.0 billion in fiscal 1979—including $2.4 billion in grain and $0.5 billion in soybeans. Trade in other agricultural products generally was rather minor. The United States supplied more than a fifth of the total value of all Soviet agricultural imports in 1979 and nearly two-thirds of the value of grain imports.

The dynamic growth in U.S.-Soviet agricultural trade took an abrupt turn in January 1980 when the United States imposed a partial embargo on agricultural exports to the USSR in response to the Soviet invasion of Afghanistan. Agricultural exports to the Soviet Union plummeted to little more than $1 billion in 1980.

Only moderate recovery in exports has been attained since the lifting of the partial embargo in April 1981. In fiscal 1982, the United States exported $2.3 billion worth of U.S. commodities to the USSR, primarily wheat ($1.1 billion), corn ($950 million) and soybeans ($180 million). This level of trade was nearly 50 percent greater than the year before.

Very roughly, the United States supplied two-thirds of Soviet grain imports in the 1970s, but only one-third since the partial embargo. In addition, most Soviet purchases of soybeans and products have been steered to other suppliers. Moreover, since January 1980, the USSR has concluded bilateral agreements with most other major grain and soybean exporters to provide mutual assurances of continuing demand and supply.

TASS from SOVFOTO

The USSR has become a major force in world agricultural trade, affecting prices in world commodity markets. The United States has not shared in the dynamic growth of the Soviet market since 1979, but other suppliers (primarily Argentina, Canada and the European Community) have met the bulk of Soviet import needs.

The future of U.S.-Soviet agricultural trade depends on Soviet import needs and capabilities, as well as competition from other suppliers. The Soviet perception of the United States regarding dependability of supplies and U.S. efforts to promote trade will be key determinants of this future trade relationship. ■

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U.S.-Soviet Consultations Stress Need To Work Closely

"This could be one of the most important consultation meetings since the outset of the agreement. Discussions dealt extensively with the potential for future expansion of trade." With those words, Alan T. Tracy, acting U.S. Under Secretary of Agriculture, summarized the most recent U.S.-USSR grain consultations.

"Since Soviet meat production and total U.S. grain exports have been essentially stagnant for the past four or five years, it was recognized that there could be mutual advantage in future growth in grain trade between the United States and the USSR," Tracy added.

The second semiannual session of regular grain consultations under the seventh year of the U.S.-USSR grain agreement was held March 24-25 in Moscow. Tracy headed the U.S. delegation. Deputy Minister of Foreign Trade Boris Gordeev led the Soviet group.

The talks included a detailed discussion of the world grain supply/demand situation, U.S. supplies, possible Soviet import needs and a review of purchases and shipments thus far in the year.

At earlier consultations, the Soviets had indicated that their July-December 1982 grain imports from all origins would be around 12-13 million metric tons, but at the March meeting, the United States learned that imports totaled close to 15 million.

"The total level of Soviet import needs for the July-June year (1982/83) was not clear from the discussions," said Tracy. "Although actual imports will apparently be significantly smaller than last year's 46 million tons, it may be that even with the larger 1982 crop, some quantity of reserves may also be used to meet the year's consumption requirements."

Tracy said both sides stressed the need for continuing to work closely in the months ahead and to meet further, as necessary.

Fact File

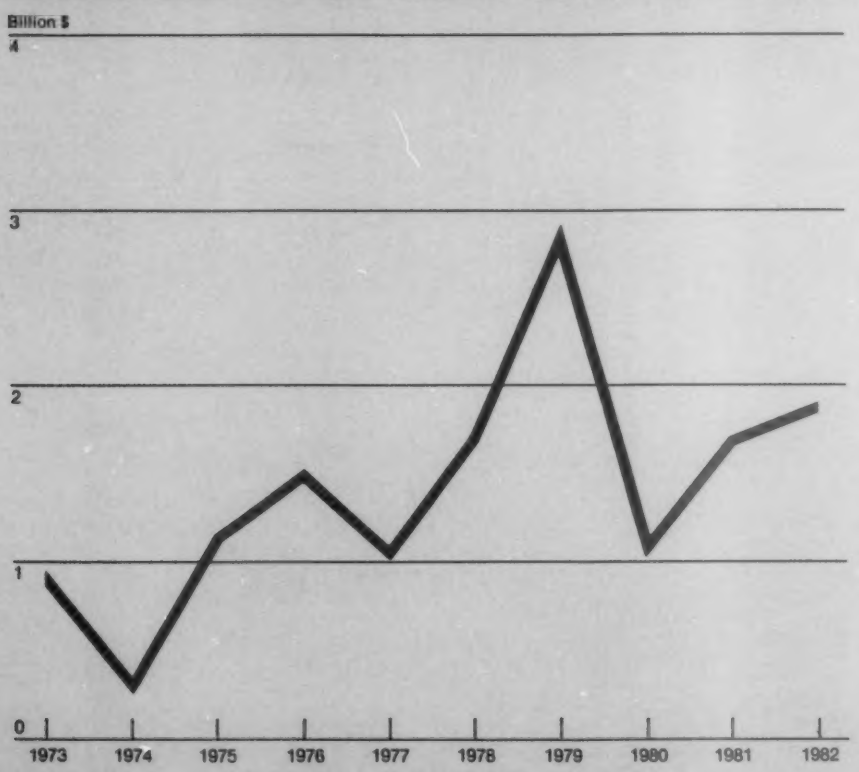
U.S.-Soviet Agricultural Trade: Post-Embargo Update

Sales of U.S. agricultural products to the USSR in 1982 increased for the second year in a row following the lifting of the partial U.S. embargo in April 1981.

Sales last year reached $1.85 billion, up from $1.66 billion in calendar 1981 and substantially above the 1980 sales of $1.0 billion. Although there has been improvement, U.S. agricultural exports to the USSR are still well below the record $2.85 billion set in 1979. Exports are projected to be about $1.3 in 1983.

The U.S. embargo prompted the USSR to diversify its sources of supply. Since the embargo went into effect in January 1980, the Soviets have locked in long-term supply agreements with a number of countries. This has made it extremely difficult, in many cases, for U.S. exporters to regain their position in the Soviet market. These long-term agreements run from a year in duration to as many as five years.

U.S. Agricultural Exports to the USSR Fluctuate Over Last Decade



Soviets Turn To Agricultural Trade Agreements With Non-U.S. Suppliers

Supplying Country	Commodity	Quantity/Yr. (1,000 MT)	Period of Shipment
Brazil	Soybeans	500	1982-86
	Soybean meal	400	1982-86
	Soybean oils	40	1982-86
	Corn	500	1983-86
	Cocoa beans	10	1983-86
	Cocoa liquor	10	1983-86
India	Sesame seeds	10	1981
	Ground nuts	30	1983
	Rice	500	1981
	Barley	100	1981
Argentina	Soybeans	'500	1981-85
	Corn and/or sorghum	4,000	1981-85
	Boneless beef	60-100	1981-85
New Zealand	Butter	40	1981
	Whole milk powder	30	1981
Canada	Wheat or wheat flour, barley, oats	4,000	1981-86

' *Minimum.*

Soviets Agree To Discuss New U.S. Trade Agreement

In May, the Soviet Union accepted President Reagan's offer to negotiate a new long-term grain purchase agreement.

The United States and the Soviet Union are in the second one-year extension of an original five-year agricultural trade agreement. The extension expires Sept. 30, 1983.

The current extension obligates the United States to make available at least 8 million metric tons of wheat and corn annually and the USSR to purchase at least 6 million tons per year. At a consultation last October, it was concluded that the USSR could purchase up to an additional 15 million tons of wheat and corn without further consultation. As of May 5, the Soviets had purchased about 6.2 million tons, half wheat and half corn.

Corn and Wheat Lead U.S. Sales List to USSR in 1982

Of the top five U.S. farm exports to the Soviet Union in 1982, corn and wheat were clearly the leaders, each by more than a 4-1 margin (by value) over the third largest export—soybeans.

The United States is expected to remain a major supplier of corn to the USSR in 1983 as U.S. prices are likely to be competitive.

Commodity	Value ($ million)	Volume (metric tons)	Volume Change percent from 1981
Corn	818.8	7.0 million	-22.8
Wheat	802.2	4.3 million	-4.6
Soybeans	171.3	649,000	-94.8
Sunflowerseed oil	22.7	41,400	-100.0'
Tallow	17.9	39,500	-59.2

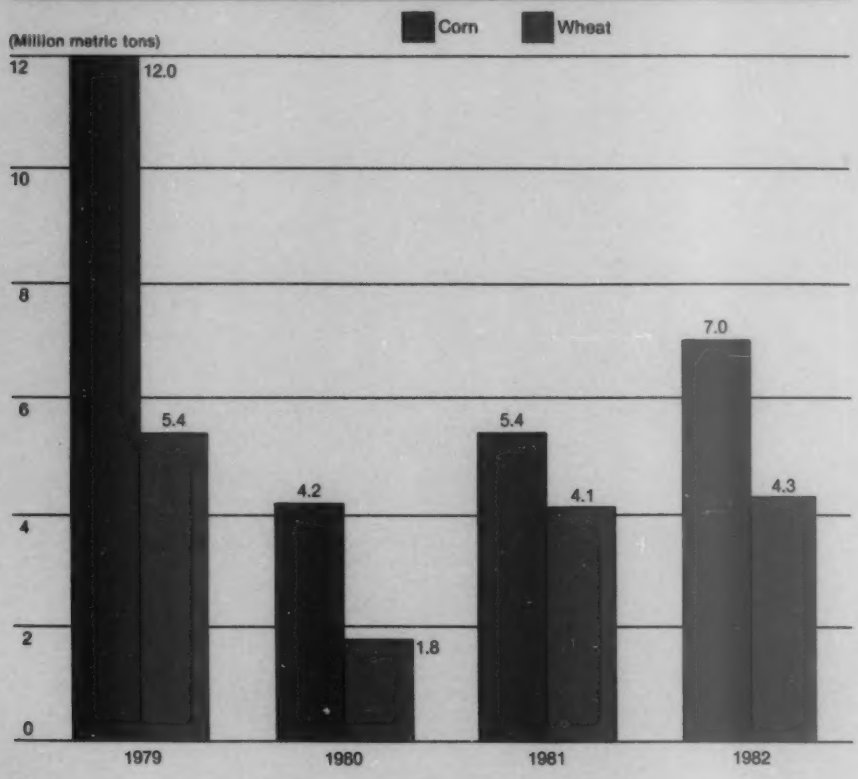
' No U.S. sunflowerseed oil exported to USSR in 1981.

Corn and Wheat Sales Recoup Slowly

Sales of U.S. corn and wheat to the Soviet Union are showing signs of recovery after the partial grain embargo imposed from January 1980 to April 1981. During the embargo, sales of corn were at the lowest level since 1974 and wheat slipped to the lowest level since 1976.

Wheat sales in 1982 climbed back nearly to the 1979 peak year, but corn sales still lagged far behind 1979.

U.S. Corn and Wheat Sales to USSR



Soviet Agriculture: Controlling a 2-1/2-Billion-Acre Farm

TASS from SOVFOTO

By David M. Schoonover

What crops will be planted? Who gets the fertilizer, pesticides and the modern tractors? The world's largest farm work force—some 25 million strong—depends on central planning committees to answer these and the rest of the questions that determine how the Soviet Union will use its 1-billion-hectare or approximately 2-1/2-billion-acre farm.

In a manner of speaking, it is one big farm because the state owns all the land, equipment and resources. Central planners guide the system, its farmers, its input suppliers, on down the line throughout the commodity marketing chain. Even the farm prices are fixed by government.

Farms—Collective vs. State

The main organizational divisions in Soviet agriculture are the collective farms (Kolkhozy) and state farms (Sovkhozy). In 1981, there were about 26,000 collective farms, averaging

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6,500 hectares each and accounting for 44 percent of the arable land in the USSR. State farms numbered 22,000, averaged 16,900 hectares each and maintained about 53 percent of the arable land. Most of the remaining 3 percent of the farmland was held in private household plots.

Collective farms were the dominant organizational form for most of the Soviet period. By the mid-1970s, however, state farms had moved slightly ahead in arable land holdings.

Prior to the Brezhnev years, collective and state farms differed markedly. State farms were funded out of the state budget, and the workers received a regular wage for work performed. In contrast, collective farms were dependent largely on their own earnings, and the workers received the residual share of a farm's net income.

In terms of individual incentives, collective farmers are allowed to retain private household plots of up to ½ hectare. Their counterparts on the state farms may hold smaller plots.

Ideological reforms during the Brezhnev years narrowed the differences between the two types of farms. Guaranteed monthly payments to collective farmers were introduced in 1966 and rapidly adopted in the late 1960s. A process to convert state farms into profit-motivated operations was begun in late 1967 and, reportedly, completed by the mid-1970s.

Aiming at economic integration during the 1970s, the Kremlin created a number of interfarm and agro-industrial enterprises. Interfarm enterprises mix or match a number of collective and state farms usually in association with some common facility such as a feedlot or feed mill. Agro-industrial enterprises combine farm production and processing facilities.

Soviet "Agribusiness"

Of course, the Soviet food and fiber system has a variety of other economic entities in addition to the farms. There are state industrial enterprises involved in the input and processing industries as well as state trade organizations. In rural areas, retail outlets are operated by "consumer cooperatives."

On the administrative side, there is a plethora of ministries and committees for various aspects of the food and fiber system.

One of the key institutions is the state planning committee, responsible for preparing the annual and five-year plans. The Ministry of Agriculture handles the implementation of plans on most farms.

Several other ministries have responsibility for marketings. There is also a relatively new ministry in charge of the production and marketing of fruits and vegetables.

In an attempt to better coordinate the many agencies dealing with agriculture at the national and local levels, a national agro-industrial commission was formed in June 1982. It is chaired by a deputy prime minister and includes top officials from 14 ministries and committees.

Black Star

Similarly, new associations were formed to handle the administrative coordination at the local levels.

Naturally, trading with the USSR is also closely supervised by Soviet agencies. Grain trade, for example, is controlled by Exportkhleb. This organization is the one which enters into contract negotiations with foreign exporters of grain. It answers to the Ministry of Foreign Trade and helps supply the USSR's requirements for grain.

The Policy Flux

Changes in the various farm organizations echo the shifts in Soviet leadership and ideology. Agricultural policies in the USSR during its first 65 years have evolved from ones encouraging a massive infusion of resources to policies with a focus on supporting industrialization. The most recent policies have considerable consumer orientation.

The groundwork for the present system was laid by Lenin when he nationalized the land and introduced collective and state farms. It remained for Stalin to impose the Soviet-style central planning and collectivization in the rural sector.

Khrushchev engineered a major increase in agricultural production partially through an extensive plow-up of new lands in Siberia and Kazakhstan. To some degree, he also decentralized agricultural planning and management. And he introduced a series of price increases that enabled farms to produce some commodities at a profit.

Under his leadership farm and farmer incomes improved and investments in agriculture jumped sharply. Progress slowed in 1958, however, when Krushchev turned his attention to administrative reorganizations.

Breshnev's policies guided Soviet agriculture for most of the past two decades. In 1965, he introduced an agricultural program which brought farming a massive infusion of investment resources. Prices were increased to enhance profits for more commodities. Agricultural sales plans became more stable and predictable, yet strong incentives offered encouragement to exceed the planned goals. And institutional reforms narrowed the differences between collective and state farmers.

Perhaps reacting to the relationship between labor productivity and consumer well-being, the Soviets flavored their policies with consumers in mind during the 1970s. The production gains of the previous decade supported this orientation.

For the most part, the basic principles of Brezhnev's 1965 farm policy were maintained during the 1971-75 plan, but production efforts were focused primarily on a program to meet consumer demands for meat, milk and other livestock products.

However, the plans lost momentum. An over-commitment to livestock, along with feed shortfalls, caused the Kremlin to reverse its trade policy and resort to large grain imports.

The five-year plan for 1976-1980 called for a smaller increase in investments for agriculture, but it placed a heavy emphasis on efficient use of resources. Efficiency was to be fostered through specialization.

The Program of Interfarm Cooperation made the front-line efforts in this endeavor. Production increases, however, were small because of bad timing and bad weather. The effect on policy was to shift from specialization to coordination.

Apart from the slowing of investment growth, initial policies for 1981-85 cohered with Brezhnev's farm program dating back to 1965. Prices again were increased on the major farm products. Farm sales incentives were modified to put a 50-percent bonus on sales above the previous five-year average. And measures were taken to enhance personal incentives.

On May 24, 1982, Brezhnev announced a comprehensive "food program" which, for the first time, singled out the agro-industrial complex as an independent unit of planning and management. Brezhnev spoke of creating agro-industrial commissions at all administrative levels to coordinate work in the food system.

The food program retains a great deal of continuity with past farm policies. It is innovative, however, in its apparent recognition that solutions to food problems in the USSR will require better coordination in all the operations that make up the food system.

It remains to be seen if General Secretary Andropov will proceed along the Brezhnev avenues or, like his predecessors, place his own special stamp on Soviet agriculture. ■

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Soviet Farmers Tackles Perennial Problems

By David M. Schoonover

Soviet agricultural growth rates in the 1960s were among the highest in the world. This growth slowed in the 1970s, but gains were about on par with average world performance until a string of poor crops—beginning in 1979—plagued Soviet farmers.

Former Soviet leader Brezhnev in late 1981 called food the central economic and political problem of the nation's current Soviet five-year plan (1981-85).

Agriculture in the USSR is not endowed with a favorable climate as is the United States. Simply put, it is too cold and too dry. In addition, the weather is extremely variable from year to year, with severe droughts about every second or third year.

Despite the large land mass of the USSR—a sixth of the world's total—only about a tenth of the land is suitable for cultivation. Although the Soviet Union is almost two-and-a-half times the size of the United States, arable land area exceeds that in the United States only by about a fifth. However, the area in cultivation normally exceeds the U.S. area by more than a fifth because practically all usable land in the USSR is farmed.

Despite Restraints, Soviets Still Produce Large Crops

Despite climatic limitations, the USSR is the world's leading producer of many crops—wheat, rye, oats, potatoes, sugarbeets, sunflowerseed, fiber flax and, sometimes, cotton. Soviet holdings of cattle and hogs are the second largest in the world, while sheep holdings ranked first.

Still, the Soviets have to rely on large-scale imports of grains, oilseeds, meat and sugar to keep pace with domestic needs.

Investment in Land Is High

Although the Soviets don't have much more agricultural land than the United States, labor and capital investments in agriculture are much greater. About 20 percent of the Soviet labor force works in agriculture, compared with only 3 percent in the United States. Moreover, about 20 percent of all capital investments in the USSR goes into agriculture, compared with about 5 percent in the United States.

There are fewer tractors and trucks available for agriculture in the USSR than in the United States. In addition, there are shortages of operable equipment throughout the Soviet Union where agriculture is much more labor intensive than in the United States.

The Soviet government has not always directed such large levels of capital investments into the agricultural sector.

Efforts to develop agriculture by using heavy doses of capital investments were a key feature of Brezhnev's agricultural program, beginning in the mid-1960s. Prior to that, particularly in the early years of Soviet rule, agriculture was maintained at a relatively low level of capital.

Consequently, over the last two decades, the Soviets have attempted to correct for past under-investments. ■

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Soviet Livestock Sector Logs Improvement

The Soviet Union's livestock sector has begun to improve following a steady four-year decline stemming from poor grain harvests and insufficient feed supplies. This is the picture emerging from the production results of the Soviet livestock industry—socialized sector only—during the first quarter of 1983.

Live weights of cattle and hogs are gaining, and milk production and yields are moving upward. Better feed supplies and mild weather over the past winter are largely responsible for the improved performance of the livestock sector.

Given an average grain harvest along with record inventories and the first-quarter gains, Soviet meat outturn could range from 15.5 to 15.8 million metric tons, while milk output could reach 93-95 million tons. Soviet egg production is likely to exceed the planned target of 73 billion by 1.4 billion eggs. Production of wool and butter is expected to be 460,000 tons and 1.48 million tons, respectively.

On the import side, Soviet purchases of meat and products could fall slightly this year to 850,000-900,000 tons. However, poultry meat imports will remain high, possibly exceeding the estimated 260,000 tons imported last year. Butter imports may decrease in 1983.

Based on the improved animal productivity in the Soviet Union, the best market opportunities for the U.S. meat industry appear to center on tallow used in feeds and mechanically deboned meats for sausage.
—From Harlan J. Dirks, U.S. Agricultural Counselor, Moscow.

Country Briefs

China

New Breeds, Technology Needed for Pork Subsector

China's hog-pork subsector is facing problems similar in many respects to those faced in earlier years by other countries, including the United States. Consumer preferences are shifting to leaner meat, native varieties of hogs are unsuitable for the requirements of a modernizing system, feed supply and livestock production technology are inadequate to maintain the momentum of growth of the past several years, and the entire marketing, storage, processing, transportation, and distribution infrastructure is in need of modernization. Imports of foreign hog varieties to improve breeds, and imports of feeding, veterinary, and feed manufacturing technology will be critical to overcoming these inadequacies.—*Francis C. Tuan, Economic Research Service. Tel. (202) 447-8676.*

Bumper Harvests Attest To New Incentive Policies

Credit for China's bumper 1982 harvest is being given to good weather and the new responsibility system which stresses material incentives for greater production. The favorable verdict should be a boost for the rural reorganization policies that are being implemented in China today.

These policies have been subject to experimentation and refinement since their adoption in late 1978. Under the responsibility system that has been adopted, households sign contracts with the production team, pledging to produce a certain quota of crops on the land assigned for their use. The farmer is free to use as he pleases any surplus produced above the quota. He can sell the surplus to the state at a fixed, bonus price or he can sell it on the free market. Quota amounts have been modest, thus giving strong incentive to farmers to exceed their quotas. For the past few years about 15 percent of the grain harvest has entered the commercial market through state purchase. Private sale of grains is relatively small.

The responsibilty system, which was tried first in some selected areas that were having problems of declining grain production, has been credited with turning many of these areas into sucessful producers. The need for the state to provide grain for rations in areas of shortage has thus declined. In fact, with the last few years' good harvests, a landmark decision was made to repeal the regulation prohibiting transfer of grain by private producers between areas. More grain is now being shipped to areas that have concentrated on the production of economic crops, as well as to urban areas. Presumably the state intends to rely more on the maket mechanism to accomplish the cumbersome task of inter-regional grain transfer.—*Norman R. Kallemeyn, Agricultural Counselor, Beijing.*

Japan

Program Launched To Maintain Existing Diet Patterns

Japan's Ministry of Agriculture is continuing to push the idea of a "balanced" diet for the Japanese people which is higher in carbohydrates (specifically rice) and vegetable protein, and lower in fats and oils, sugar and livestock products than the diets of other industrialized countries. Officials argue that such a diet would be more healthful than Western diets, and more consistent with Japanese traditions. They also hope that by maintaining current dietary patterns, Japan will be able to maintain or perhaps even increase its rate of self-sufficiency in food production. Falling rice consumption is the main concern, but the government is also eager to stabilize demand for other traditional foods, including fish and seaweed. The dietary program has already made a mark through the skillful use of the media and effective coordination with groups which have an interest in maintaining the traditional diet, such as rice shop owners and farm groups. —*William L. Davis, Agricultural Counselor, Tokyo.*

Opportunities Exist for U.S. Barley Sales

Japan likely will import 1.4-1.5 million tons of barley during its 1983 fiscal year which began April 1. Canada, which has a supply agreement with Japan for 900,000 tons (plus or minus 10 percent), probably will supply at least 1 million tons. Because of the drought, Australia is only expected to supply 100,000 tons. The remaining 300,000-400,000 tons could come from the United States if prices are competitive. If not, Japan will probably purchase additional barley from Canada.—*William L. Davis, Jr., Agricultural Counselor, Tokyo.*

Country Briefs

Kenya

Growth Seen in Wheat Imports

Kenya's wheat imports are projected to grow 20-25 percent over the next five years. Serious and costly problems have taught local bakeries that they must blend hard wheat with the soft local wheat to make proper wheat flour and bread. Kenya imported 70,000 metric tons of U.S. hard red winter wheat (11 percent protein) in 1982/83 and is expected to import the same quantity of wheat in 1983/84. Energetic market development efforts on the U.S. part have helped counteract an aggressive sales program by the European Community for this market. U.S. grain prices and freight rates to East Africa also are low and currently the United States is competitive with other suppliers on both a commercial or concessional basis.—*Harold L. Norton, Agricultural Attache, Kenya.*

Norway

Outlook for U.S. Tobacco Sales Mixed

The prospects for maintaining the present sales level of U.S. tobacco on the Norwegian market are mixed. While U.S. tobaccos are well suited for the main Norwegian tobacco products, high U.S. prices as well as the strong dollar are encouraging the Norwegian industry to seek alternative supplies. Also, the government's requirements for a nicotine and tar content declaration (to be effective January 1, 1984) likely will encourage the Norwegian tobacco industry to substitute low tar and nicotine tobaccos.

On the plus side, however, the Norwegian tax structure continues to favor roll-your-own cigarettes. Since the content of U.S. tobacco is generally higher in the roll-your-own cigarettes, imports of U.S. tobacco could be maintained.—*Edmund L. Nichols, Agricultural Counselor, Copenhagen.*

Pakistan

Import Demand for Quality Oilseeds Increasing

Strong growth in Pakistan's broiler and egg production over the next few years is expected to push mixed feed consumption in the commercial poultry sector to 330,000-410,000 tons by 1987, up from 260,000 tons in 1980/81. Hence, the potential demand for protein meals in the sector is estimated at 60,000 - 80,000 tons. Given the projected rate of increase in Pakistan's domestic feed production, it appears the meals most suited for poultry and layer rations (that is soybeans and peanut meal) will have to be imported. Pakistani imports of protein meals are expected to average close to 100,000 tons annually during the 1980's.— *Amjad Gill and Richard Nehring, Economic Research Service. Tel. (202) 447-8230.*

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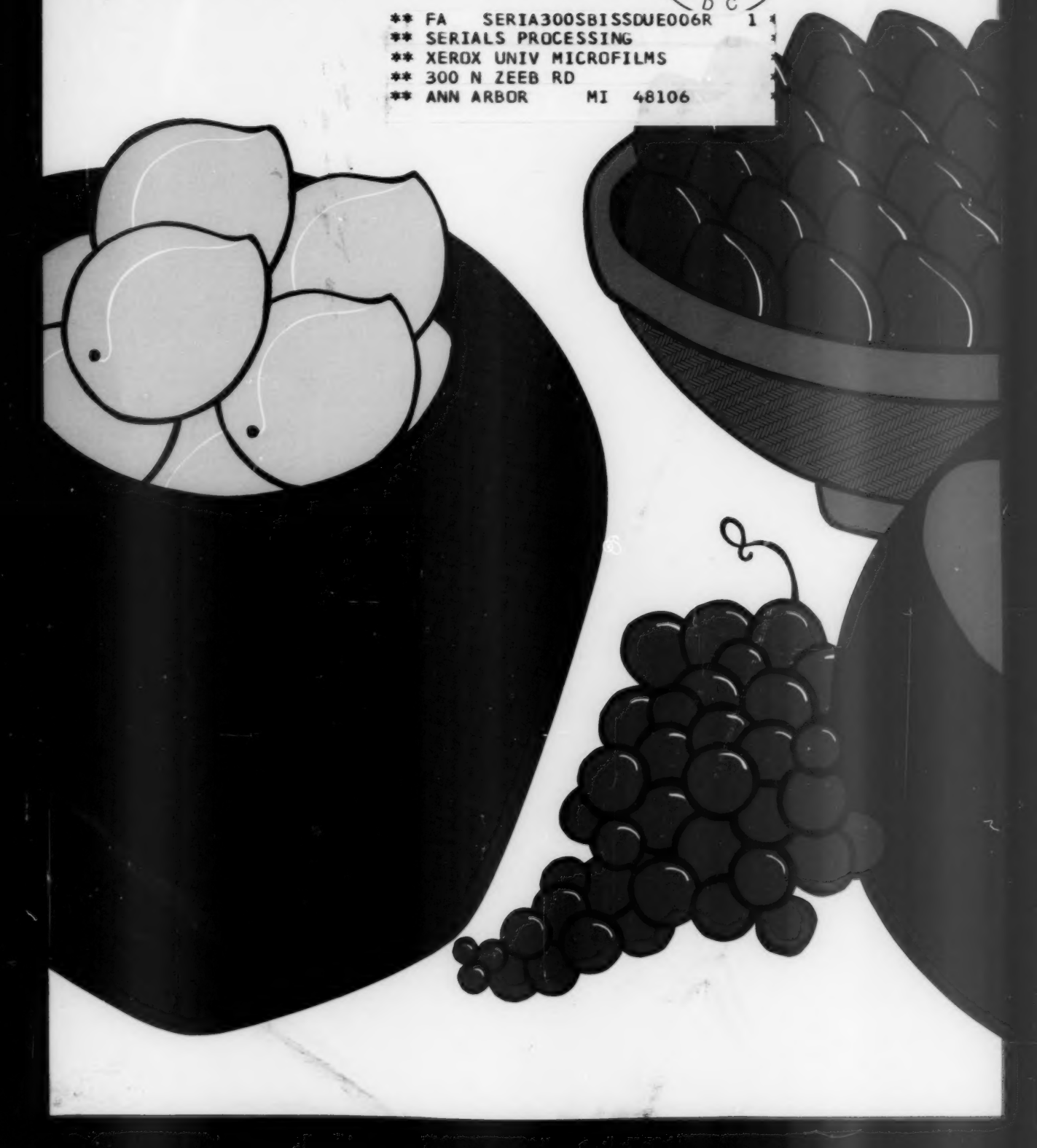
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